

MARKET OVERVIEW

In the second quarter of 2006, the Sacramento market absorbed 181,177 square feet of office space. This brings the year-to-date total to 211,191 square feet, and marks the ninth consecutive quarter of positive absorption. Many submarkets highlighted this positive trend, including Natomas/Northgate, Roseville/Rocklin, Elk Grove, and West Sacramento.

Total net absorption for the Sacramento area has remained positive for the past nine consecutive quarters.

The vacancy rate now at 13.35%, is essentially unchanged from last quarter. The lack of change in the overall vacancy rate is the result of increased leasing in several submarkets being offset by new vacancies. These vacancies were due in part to the ±340,000 square feet of newly completed construction and the 144,000 square feet vacated from the USAA building at 2241 Harvard Street in Point West. Within the Roseville/Rocklin submarket, ±88,000 square feet of completed construction was occupied. It should be noted that vacancy rates in the Highway 50 submarket do not reflect E-Trade's 275,000 square feet becoming available for sublease in the Prospect Green complex on White Rock Road. This space is currently still producing rent for the owner and therefore is counted as available but not vacant.

A total of 10 buildings were completed during the second quarter, adding close to 340,000 square feet of rentable space to the market. The largest of these projects included: 915 Highland Pointe Drive (113,000 square feet) and 1000 Sunset Boulevard (100,000 square feet), both in the Roseville/Rocklin submarket. The Elk Grove submarket added two buildings, totaling just over 27,000 square feet, as well as Natomas/Northgate completing one building of 25,000 square feet.

The area's construction activity remains strong with 43 projects totaling 1.7 million square feet currently underway. There are an additional 77 projects in the planning phase.

The overall average asking lease rate for the Sacramento area market remains relatively unchanged from first quarter of 2006. A slight increase in Class A rates in the Downtown, South Natomas, Northgate/Natomas, Roseville/Rocklin and Elk Grove submarkets is reflective of higher construction costs.

QUICK STATS

	Current	Yr.	Qtr.
		Change from last	
Vacancy	13.35%	↑	↔
Lease Rates	\$1.73	↑	↔
Net Absorption*	181,177 sf	↓	↑
Construction	1,672,502 sf	↑	↑

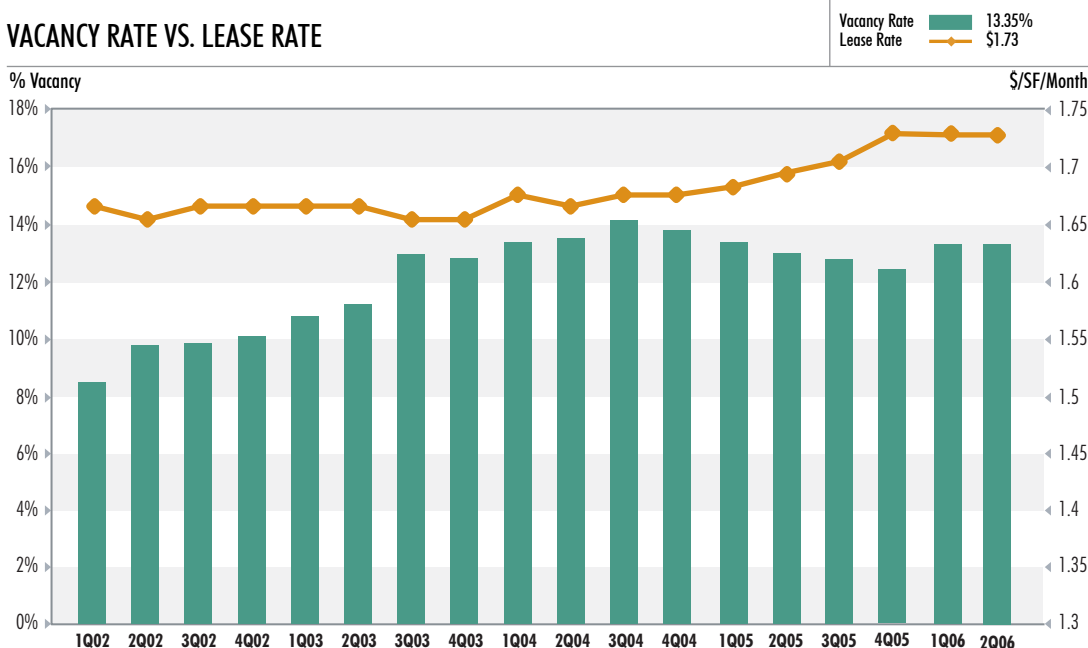
* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

HOT TOPICS

- The vacancy index for the Sacramento office market remains relatively unchanged from first quarter 2006 and currently stands at 13.35%.
- A slight increase in Class A rates in the Downtown, South Natomas, Northgate/Natomas, Roseville/Rocklin and Elk Grove submarkets is reflective of higher construction costs.
- There are currently 43 projects now under construction in the Sacramento area totaling approximately 1.7 million square feet.

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VACANCY RATE VS. LEASE RATE



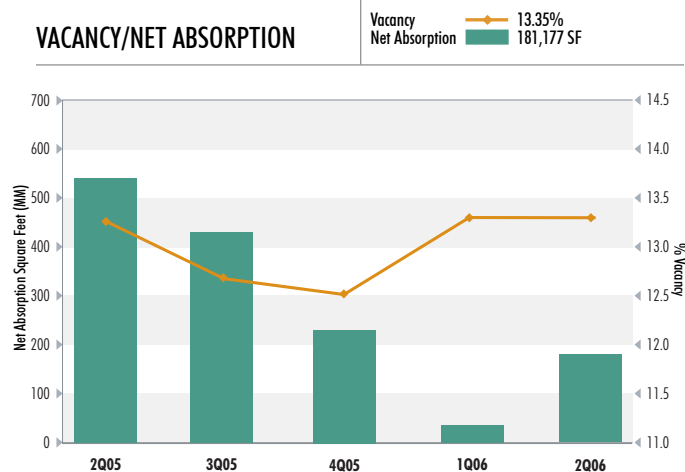
Area	Submarket	Leasable Sq. Ft.	Vacant Sq. Ft.	Vacancy Rate	2Q Net Absorption	YTD Net Absorption	2Q Under Construction	2Q Avg. Lease Rates*	Class A Quoted Rates*
92	South Natomas	2,563,976	424,026	16.54%	1,953	(7,543)	116,739	\$1.95	\$2.25
78	Northgate / Natomas	2,350,363	355,338	15.12%	76,122	(12,691)	369,758	\$1.80	\$2.27
72	Midtown	1,807,728	207,651	11.49%	(19,565)	(22,970)	0	\$1.70	n/a
85	Campus Commons	1,578,317	111,651	7.07%	5,102	(10,062)	40,000	\$1.80	n/a
84	Point West	2,300,110	344,961	15.00%	(74,679)	(126,162)	0	\$1.85	\$2.50
77	Howe / Fulton	1,587,210	192,461	12.13%	(4,047)	(1,387)	0	\$1.50	n/a
79	Watt Avenue	1,334,751	113,639	8.51%	(16,908)	(20,249)	0	\$1.50	n/a
80	Highway 50 Corridor	10,925,030	1,527,640	13.98%	14,458	22,533	33,000	\$1.65	\$1.95
81	Carmichael / Fair Oaks	345,603	13,947	4.04%	71	(8,983)	0	\$1.45	n/a
83	Citrus Heights / Orangevale	1,056,649	76,305	7.22%	27,981	26,986	0	\$1.40	n/a
88	Roseville / Rocklin	5,484,687	852,641	15.55%	89,988	198,627	374,804	\$2.10	\$2.42
74	South Sacramento	1,369,028	197,720	14.44%	(13,728)	(12,144)	0	\$1.40	n/a
75	East Sacramento	291,100	99,000	34.01%	33,000	33,763	0	\$1.56	n/a
87	Elk Grove	559,552	135,415	24.20%	44,077	92,587	106,765	\$2.10	\$2.40
73	West Sacramento	1,223,020	196,620	16.08%	20,815	14,982	0	\$1.50	n/a
86	Folsom	2,218,480	186,086	8.39%	17,432	116,593	289,436	\$1.80	\$2.50
Suburban Total		36,995,604	5,035,101	13.61%	202,072	283,880	1,330,502	\$1.69	\$2.33
71	Downtown	10,394,399	1,291,920	12.43%	(20,895)	(72,689)	342,000	\$2.25	\$2.87
Market Total		47,390,003	6,327,021	13.35%	181,177	211,191	1,672,502	\$1.73	\$2.40

Only existing single and multi-tenant office properties over 10,000 square feet, excluding government-owned buildings and medical buildings, are included in this survey.
 * Average asking rate is based on direct leases only; excludes sublease space. Rates are based on price per square foot per month for full service.

MARKET OUTLOOK

Concerns about leasing activities are being heard in the market. These concerns are supported by the unplanned vacancy created by both E-Trade and USAA within Highway 50 and Point West, respectively. On a positive note, the numbers highlighted herein do not reflect the continuing strength of the owner/user market.

VACANCY/NET ABSORPTION



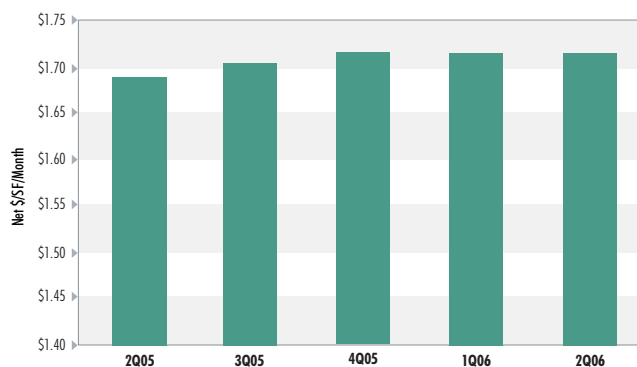
VACANCY RATE

The vacancy index for the Sacramento office market remains relatively unchanged from first quarter 2006 and currently stands at 13.35%. The Folsom area experienced a drop in vacancy for the fifth quarter in a row and is down from first quarter's 12.36% to 8.39%. An increase in activity in the West Sacramento area has brought vacancy rates down 1.7 percentage points from 17.78% to 16.08%. Downtown rates have also dropped 0.89% from 13.32% to 12.43%. Submarkets currently under 8% vacancy include: Campus Commons, Carmichael/Fair Oaks, and Citrus Heights/Orangevale. Increased vacancy in the Point West/Tribute submarket is attributed to the vacancy of 144,000 SF from the USAA building at 2241 Harvard Street.

NET ABSORPTION

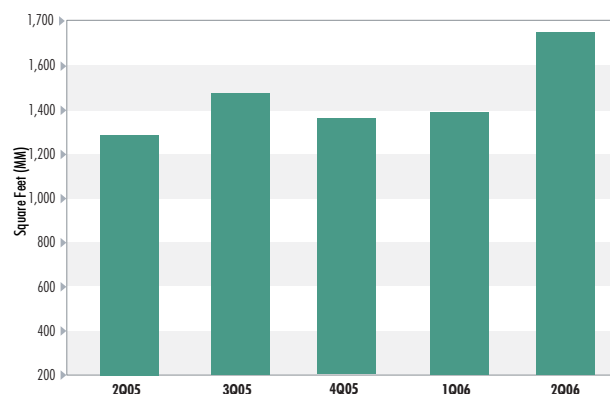
Year to date, the Sacramento office market experienced positive absorption of 211,191 SF, of which 181,177 SF was absorbed in the second quarter. The Roseville/Rocklin market experienced 89,988 SF of positive absorption partially due to the initial occupancies in the 343,194 leasable square feet from buildings completed this quarter. Other areas showing positive improvement are: Northgate/Natomas from a negative 88,813 SF to a positive 76,122 SF, and Elk Grove from negative 5,833 SF to 20,815 SF of positive net absorption at the end of the second quarter.

AVERAGE ASKING LEASE RATES



The overall average asking lease rate for the Sacramento area market remains relatively unchanged from first quarter of 2006, at \$1.73. A slight increase in Class A rates in the Downtown, South Natomas, Northgate/Natomas, Roseville/Rocklin and Elk Grove submarkets is reflective of higher construction costs.

CONSTRUCTION ACTIVITY

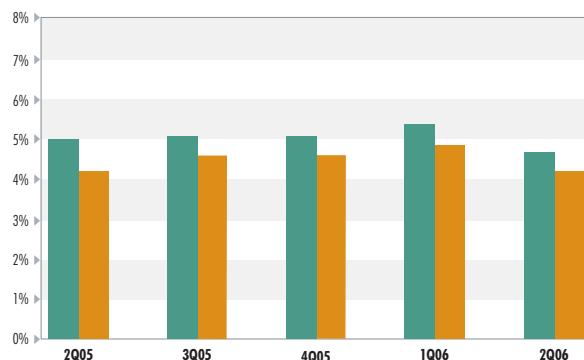


There are currently 43 projects now under construction in the Sacramento area totaling approximately 1.7 million square feet. Of the 1.7 million square feet of rentable space, approximately 20% is pre-leased to date. The Roseville/Rocklin submarket currently has 15 buildings under construction consisting of 374,804 SF. Downtown construction highlights the new US Bank Tower at 621 Capitol Mall comprised of 342,000 SF of Class A office space, due to be completed in the Spring of 2008. Other areas with large projects are Natomas/Northgate with 369,758 SF, and Hazel/Folsom with 289,436 SF.

There are currently 77 planned office projects in the greater Sacramento region, totaling almost 4.5 million square feet. Thirty-five of these properties are in the Roseville/Rocklin submarket and account for over 1.6 million square feet of the proposed developments. Other areas with notable planned projects are: Hwy 50 Corridor with 8 projects (1,011,814 SF), Elk Grove with 10 projects (352,152 SF), Folsom with 5 projects (415,356 SF), and Northgate/Natomas with 9 projects (246,391 SF) square feet.

UNEMPLOYMENT RATE

California
Sacramento MSA

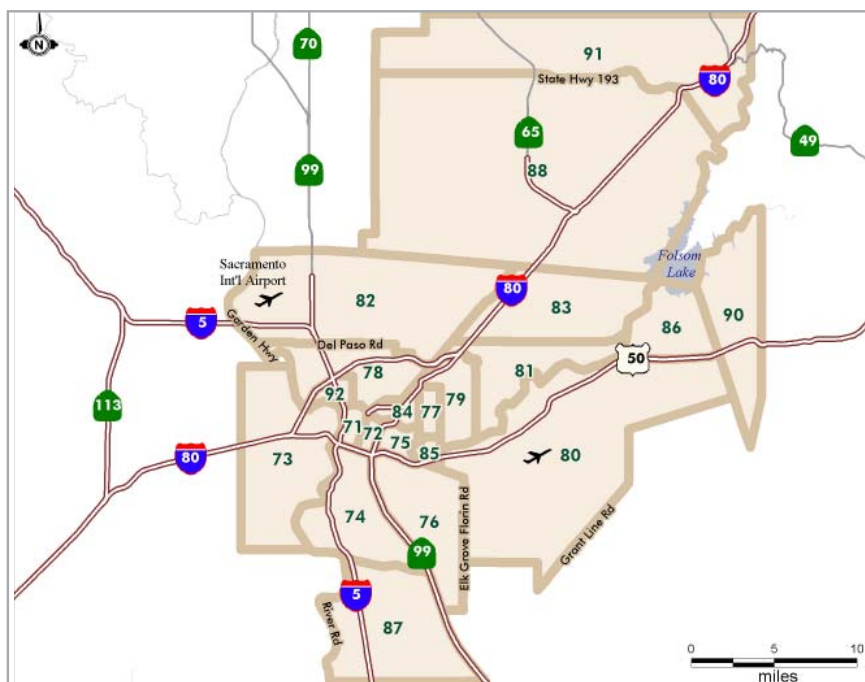


In May 2006, the California Employment Development Department reported a 4.2 percent unemployment rate for the Sacramento Area, which fell below last year's estimate of 4.5 percent and is down from last quarter's number of 4.8 percent. The current unemployment rate for California is 4.6 percent. Across counties, unemployment rates are as follows: El Dorado County 4.2 percent, Placer County 3.6 percent, Sacramento County 4.3 percent, and 4.3 percent in Yolo County.

During last year the total job count increased by 2.4 percent, with a total of 21,000 jobs added to the Sacramento MSA. Nearly all industries contributed to the positive gain of employment with the largest impact of 5,400 additional jobs in professional and business services. While the nation is experiencing an overall decline in manufacturing, the Sacramento MSA tallied an additional 2,200 jobs in this sector. Also of note is the significant contribution from both the government and retail industries, adding 3,600 and 3,200 respectively.

SUBMARKET AREA DESCRIPTIONS

LOCATION / MARKET AREA	MARKET NRA	MARKET SHARE
71 DOWNTOWN	10.4 million square feet	21.9%
72 MIDTOWN	1.8 million square feet	3.8%
73 WEST SACRAMENTO	1.2 million square feet	2.6%
74 SOUTH SACRAMENTO	1.4 million square feet	2.9%
75 EAST SACRAMENTO	0.3 million square feet	0.6%
77 HOWE/FULTON	1.6 million square feet	3.3%
78 NORTHGATE/NATOMAS	2.4 million square feet	5.0%
79 WATT AVENUE	1.3 million square feet	2.8%
80 HIGHWAY 50 CORRIDOR	10.9 million square feet	23.1%
81 CARMICHAEL/FAIR OAKS	0.3 million square feet	0.7%
83 CITRUS HEIGHTS/ORANGEVALE	1.1 million square feet	2.2%
84 POINT WEST	2.3 million square feet	4.9%
85 CAMPUS COMMONS	1.6 million square feet	3.3%
86 FOLSOM	2.2 million square feet	4.7%
87 ELK GROVE	0.6 million square feet	1.2%
88 ROSEVILLE/ROCKLIN	5.5 million square feet	11.6%
92 SOUTH NATOMAS	2.6 million square feet	5.4%



LOCAL OFFICES

SACRAMENTO

555 Capitol Mall, Suite 100
Sacramento, CA 95814
1.916.446.6800

ROSEVILLE

1512 Eureka Road, Suite 100
Roseville, CA 95678
1.916.781.2400

FRESNO

10 River Park Place East
Fresno, CA 93720-1531
1.559.433.3500

OAKLAND

155 Grand Avenue, Suite 100
Oakland, CA 94612
1.510.874.1900

PLEASANTON

5000 Hopyard Road, Suite 180
Pleasanton, CA 94588
1.925.251.4600

RENO

5190 Neil Road, Suite 460
Reno, NV 89502-8500
1.775.823.6999

STOCKTON

1776 West March Lane, Suite 170
Stockton, CA 95207
1.209.473.7800

SAN FRANCISCO DOWNTOWN

275 Battery Street, Suite 1300
San Francisco, CA 94111
1.415.772.0123

SAN FRANCISCO PENINSULA

950 Tower Lane, Suite 870
Foster City, CA 94404
1.650.577.2900

SILICON VALLEY

226 Airport Parkway, Suite 150
San Jose, CA 95110
1.408.453.7400

TERMINOLOGY

AVERAGE ASKING DIRECT LEASE RATE: The rate determined by multiplying the asking lease rate for each building in the summary by its associated vacant available space, summing the products, then dividing by the sum of the vacant available spaces with leases for all buildings in the summary. Direct leases only; excludes sublease space. Rates are reported \$ per Sq.Ft. per month.

MARKET COVERAGE: Includes all existing single and multi-tenant buildings 10,000 square feet and larger, excluding government-owned and medical buildings.

NET ABSORPTION: The change in Occupied Square Feet from one period to the next.

NET RENTABLE AREA (NRA): The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies and stairwell areas.

OCCUPIED SQUARE FEET: NRA not considered vacant.

UNDER CONSTRUCTION: Buildings which have begun construction as evidenced by site excavation or foundation work.

VACANT SQUARE FEET: Available NRA which is either physically vacant or immediately available.

VACANCY RATE: Vacant Square Feet divided by the NRA.

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